

GOP 1998 Session Fiscal Principles

Last year, we pledged to do three things:

- reduce taxes
- slow Spending
- put aside adequate reserves for economic downturns

We have made significant tax reductions:

- rolled back the 1993 B&O tax increase
- made significant state and local property tax reductions (Referendum 47)

We have also controlled the growth in spending:

Before Initiative 601, spending was growing at 35 percent faster than population and inflation.

The average annual growth factor before I-601 was 9.5%, the average annual growth factor after I-601 is 4.1%.

In 1998, we must adopt a supplemental budget only for emergent problems:

A supplemental budget request should only be considered if...

- it is an unanticipated, unmanageable change in an entitlement program workload or caseload;
- it corrects a serious technical error in the original appropriation;
- it deals with an emergency;
- it addresses an opportunity that will not be available next biennium.

And, we need to create adequate reserves to cope with recessions:

In the last 20 years, there were two economic downturns. Fiscal action prior to those downturns left the state without adequate resources.

1981-83 Downturn

The June 1979 balance was \$386 million (5 percent of the budget). The 1979-82 budget spent all but \$5 million of that balance. Then, during the 1981-83 downturn, the state had to borrow \$400 million, raise the sales tax and put it back on food; cut basic education funding; and eliminate the two-parent welfare program.

The 1993-95 Downturn

The June 1991 balance was \$759 million (6 percent of the budget). The 1991-93 budget spent \$500 million of the balance. Then during the 1993-95 downturn, the legislature raised general fund taxes by \$650 million, made \$700 million in budget reductions; and increased college tuition by almost 30 percent (compounded).

A 5 percent reserve would support state services through a recession. We should place most of the current surplus — \$500 million — in the Emergency Reserve Account.

- Money in the general reserves can be spent by a simple majority vote of the legislature.
- Money in the Emergency Reserve Account can only be used when 2/3rds of the legislators agree to do so.
- In the last 20 years, we have not been able to retain sufficient reserves in boom times to carry the state through the inevitable recession that follows.